BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Amendments to Uniform System of Accounts for Interconnection	)	**CC Docket No. 97-212**
	)	
	)	

COMMENTS OF SBC COMMUNICATIONS INC.

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Summary*

Part 32 looks at the regulated telecommunications industry from a functional and technological standpoint, not based on any particular service costing procedure, cost allocation method or policy objectives. Expenses are categorized based on technological distinctions, not based on the services that cause the expense. For example, equipment is categorized based on the functions it performs, such as switching or transmission, not based on whether it is used to provide local exchange or exchange access service, residential or business service or some other service. While Part 32 expense accounts are generally based on natural groupings of functions performed by assets and individuals, revenue accounts are categorized from a market perspective based on natural groupings of products or services. The NPRM's proposals depart from the Part 32 framework in a manner similar to the departure reflected in the 1978 USOA NPRM.

New revenue accounts are not needed for revenue received from CLECs for interconnection, UNEs and transport and termination. Part 32 was designed with the flexibility to accommodate new services, changing technology and competition, without the necessity of frequent revisions. In fact, ILECs have been able to record revenues from CLECs and other carriers for such telecommunications elements in existing revenue accounts, such as Account 5240. Unlike expenses, revenues are classified in Part 32 along lines of products or services purchased by customers. While the existing Part 32 revenue accounts are fully sufficient to accommodate revenue from new activities such as the provision of telecommunications elements to CLECs, these interconnection services are sufficiently separate and distinct from other revenue categories that it would be reasonable to establish a single account for their revenue. However, multiple new

* The abbreviations in this Summary are defined in the body of these Comments.

revenue accounts are not necessary. A single account, such as Account 5240, would be sufficient for all revenue from the provision of interconnection, UNEs, and transport and termination.

Further, the Commission should not require that this revenue account be disaggregated into multiple sub-accounts for each specific element being sold. Creation of multiple categories in this revenue account is unnecessary. Part 32 does not require the existing revenue accounts to be broken down into multiple categories for each specific service. It would be inconsistent for Part 32 to begin requiring such product-level categories, when existing Part 32 revenue accounts only require categorization to the level of an entire group or line of products or services.

The NPRM's goals and proposals go beyond the proper purposes of a basic system of accounts and the intent of Part 32. For example, prevention of ratepayer cross-subsidy of ILECs' competitive activities is not a task of the system of accounts. Historically, cross-subsidy has been addressed, not in the Part 32 USOA, but by mechanisms expressly adopted for that purpose, such as the Part 64 cost allocation rules and certain Part 61 price cap rules. Part 32 has never been used as a tool to prevent cross-subsidy, and it would be inconsistent with Part 32's original purposes to begin using it as such a tool at this time.

Identification of the service-specific costs of providing interconnection, as proposed in the NPRM, is inconsistent with Part 32's functional accounting approach. Part 32 was designed as a financial accounting and reporting system that is not "tied to any particular cost of service methodology." Part 32 should neither categorize costs by specific services nor assume any particular method of allocating expenses to jurisdictions, products or services. Fundamentally, Part 32 is designed as an objective accounting system that does not reflect regulatory policy decisions such as those that are required in a cost allocation system. Contrary to these fundamental Part 32 principles, the NPRM proposes to divide expense accounts based on the types of service provided, i.e., whether or not the service is related to interconnection, rather than based on the functions performed by equipment or individuals.

It is even more obvious that this proposal contradicts the principles underlying Part 32 when one examines the specific proposed method of determining the amounts to be booked in the interconnection record in each account: the NPRM proposes to use interconnection revenues as an allocator to apportion common costs to the proposed interconnection records. First, Part 32 is not a cost allocation system that attributes common costs to specific services, jurisdictions or categories of customers. Second, even in the Part 64 cost allocation system, it is improper to use revenues as an allocator for costs and to attribute costs to specific services. Third, the NPRM's proposed method would not yield any meaningful information because it would merely equate revenues and costs.

In fact, the NPRM's proposals are reminiscent of the original 1978 USOA NPRM proposal to establish an "all-purpose" system of accounts that would "slice and dice" costs down to the level of individual services using cost allocation procedures prescribed within the system of accounts. Ultimately, the Commission recognized that such a comprehensive, "all-purpose" system of accounts "would be too complex to implement and administer, would be cost prohibitive to all parties, and, premised on service offerings, would be unstable." The Commission should not now adopt an approach to the system of accounts that it rejected long ago. Allocating expenses to an interconnection-specific record in each expense account using a prescribed allocation procedure is the same sort of service-specific accounting initially contemplated in 1978 but ultimately rejected due to its extraordinary and overwhelming complexity.

The proposed allocation procedure using cost studies based on revenues is in some respects as complex as some of the proposals in 1978. Just as the 1978 USOA proposal would have required allocation of marketing costs, on a program-by-program and customer-by-customer basis, to an "intersection or cell" of a multi-dimensional matrix corresponding to the specific service element in each account, the current proposal would require a revenue-driven allocation of interconnection costs, on an element-by-element and contract-by-contract basis, to the interconnection service's record in each account. Moreover, the proposed allocation process requires detailed analysis of existing, and performance of new, cost studies to support the division among accounts of the costs of each of the elements in each interconnection agreement.

It is absurd for the NPRM to propose that allocation of common costs of interconnection should take place in the basic system of accounts. The USOA is supposed to contain an objective and reliable financial accounting base, not tied to cost of service methodologies. An arbitrary, policy-driven allocation of costs would yield accounting information distorted by the various regulatory policies reflected in the cost studies. Interconnection pricing reflected in negotiated and arbitrated agreements is not a rational method of constructing a record of the actual costs associated with interconnection. Further, this would not be a reliable or stable method of determining what portion of an account's total costs is attributable to interconnection, even if attribution of costs to individual services were a proper Part 32 function.

Requiring ILECs to allocate expenses to interconnection records in each Part 32 expense account would be extraordinarily burdensome, would not accomplish any proper goal of a system of accounts and would be offensive to Part 32's fundamental principles and organizational structure. Thus, the Commission should abandon this proposal.

In general, the NPRM fails to provide any explanation at all as to how its "means" will lead to the "ends" reflected in any of its goals. Moreover, each of these goals, other than the goal of uniformity, clashes with the intended purposes of Part 32. Also, relatively simple alternatives are available for accomplishing those of the NPRM's goals that are worth pursuing, without the necessity of requiring exhaustively detailed tracking of costs and service-specific accounting data.

Existing Part 32 expense accounts are fully sufficient to record ILECs' payments to other carriers under interconnection agreements. However, if the Commission concludes that Part 32 changes are necessary, SBC submits that for purposes of uniformity in accounting and reporting, the Commission should either create a single new account or designate a single expense account, such as Account 6540, in which all such payments to other carriers should be recorded.

Likewise, no Part 32 changes are needed to accommodate the wholesale revenue from products that are subject to the resale requirement. The Commission should not require the wholesale revenue to be identified in a separate record in each revenue account, provided ILECs are able to generate wholesale revenue reports upon request.

SBC agrees with the NPRM that Part 32 changes are not necessary because the costs and revenues of new activities associated with the 1996 Act "may readily be recorded in existing accounts." However, it is reasonable to consolidate certain types of new revenues in a single account for purposes of uniformity. With this and other limited exceptions discussed in these Comments, new accounting records or other Part 32 accounting requirements should not be imposed in connection with any activity required or permitted by the 1996 Act. Moreover, Part 32 should not be used to account for interconnection as if it required extensive or complex cost-based or rate-of-return regulation.

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COMMENTS OF SBC COMMUNICATIONS INC.

The Telecommunications Act of 1996[1] (the "1996 Act") introduced a number of new federal and state requirements for incumbent local exchange carriers ("ILECs") and other telecommunications carriers. Pursuant to these statutory and regulatory provisions ILECs, among others, will engage in new activities such as provision of interconnection[2] to competitive local exchange carriers ("CLECs") and obtaining interconnection from other ILECs for purposes of expanding service to markets they have not previously served. The Notice of Proposed Rulemaking ("NPRM")[3] in this proceeding proposes new Part 32 accounts and detailed subsidiary recordkeeping requirements for certain of the new activities required by, or resulting from, the 1996 Act.

While SBC agrees to a limited extent that certain changes may be appropriate for purposes of achieving uniformity in accounting for new types of transactions associated with

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[1] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, codified at 47 U.S.C. §§ 151 et seq. ("1996 Act").

[2] The term "interconnection" is used herein in the same manner as in the NPRM, n. 14, to refer to interconnection, access to unbundled network elements, transport and termination and resale, unless the context indicates otherwise.

[3] FCC 97-355 released October 7, 1997.

interconnection, SBC explains in these Comments why other proposed changes are unnecessary and inconsistent with the over-all framework of Part 32 as a functional accounting system, rather than a cost of service or cost allocation system. As to most of the proposed changes, SBC questions why Part 32 should contain a greater level of detail than it does already, especially when the details sought are service-specific and are not needed to draw meaningful distinctions between functions or technologies. Most offensive to an objective Part 32 accounting system is the proposal to incorporate arbitrary CAM-like procedures for allocating common costs to interconnection in each of the expense accounts.

Given that Part 32 was designed with the versatility to accommodate new services, changing technology and competition and that new revenues and costs can readily be booked in existing accounts, most of the NPRM's proposed changes are unnecessary.

I. PART 32 SHOULD CONTINUE TO BE A FUNCTIONAL ACCOUNTING SYSTEM.

As the NPRM acknowledges, Part 32 looks at the regulated telecommunications industry from a functional and technological standpoint, not based on any particular service costing procedure, cost allocation method or policy objectives.[4] Equipment is categorized primarily based on the functions that the equipment performs, not the services it is used to provide. For example, central office equipment is categorized based on technological distinctions such as whether it performs a switching or transmission function, not based on whether it is used to provide local exchange service, exchange access service or some other service.[5] While Part 32 expense

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[4] NPRM, ¶ 4.

[5] See 47 C.F.R. § 32.2(b).

accounts are generally based on natural groupings of functions performed by assets and individuals, revenue accounts are categorized from a market perspective based on natural groupings of products or services.[6] Therefore, for instance, while it is appropriate to have an End User Revenue Account, it would not be proper to establish an End User Switching Investment Account.

The proposals in this NPRM deviate from this USOA framework, not unlike an over-haul of the accounting system the FCC proposed almost twenty years ago. When the Commission first proposed a new system of accounts in 1978, it envisioned a comprehensive regulatory information system that would serve a broad range of regulatory needs, including detailed service-specific cost information produced by assignment and allocation methods prescribed within the system of accounts.[7] As originally proposed in the 1978 USOA NPRM, the purposes of the USOA would have included the following:

> (1) It will form the basis for financial reports, including both balance sheet and income statement reporting. (2) It will serve as a data base and a foundation for managerial decision-making and internal management reports by the carriers. (3) It will provide sufficiently detailed disaggregated cost and revenue information for derivation of costs and revenues of individual services and rate elements, for pricing decisions and other managerial decision-making by the carriers. (4) It similarly will provide detailed disaggregated cost and revenue information for derivation of costs and revenues of individual services and rate elements, for rate review and continuing surveillance purposes of this Commission (and other regulatory bodies which adopt the revisions) and provide

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[6] Id.

[7] Notice of Proposed Rulemaking, CC Docket No. 78-196, 70 F.C.C. 2d 719 (1978) ("1978 USOA NPRM").

> a basis for rate prescription, where appropriate. (5) It will facilitate the breakdown of costs between interstate and intrastate jurisdiction . . . (6) It will permit analysis of facility and plant utilization, including studies of the causes for each category of expenditure and review of service quality and service efficiency. And (7) it will be structured so as to allow for regulatory and independent auditing and tracing of questioned entries.[8]

Ultimately, the Commission recognized that such a comprehensive, "all-purpose" system of accounts "would be too complex to implement and administer, would be cost prohibitive to all parties, and, premised on service offerings, would be unstable."[9] Therefore, it adopted the objective, functional accounting system first described above.

Given that this NPRM is not intended to alter the fundamental principles underlying the existing Part 32 system of accounts, the NPRM's proposals must be evaluated in terms of Part 32's original principles. The Commission should abandon those NPRM proposals that depart from the Part 32 framework, especially those that do so in a manner similar to the departure reflected in the ultimately rejected 1978 USOA NPRM.

II. A SINGLE ACCOUNT, SUCH AS 5240, SHOULD BE USED TO RECORD REVENUE FROM ALL INTERCONNECTION SERVICES.

The NPRM proposes to establish new accounts 5071 and 5072 for revenue received from CLECs and other carriers for interconnection, unbundled network elements ("UNEs") and transport and termination of telecommunications. It is not absolutely necessary to create new revenue accounts in order to record new revenues such as these. In fact, Part 32 was designed

[8] Id. ¶12 (emphasis added).

[9] Further Notice of Proposed Rulemaking, CC Docket No. 78-196, 100 F.C.C. 2d 480 ¶ 7 (1985) ("Part 32 Further NPRM").

with "flexibility to accommodate diverse uses . . . [and to] respond to and accommodate technological and competitive advances in the industry"[10] without the necessity of constant revisions. To date, as noted in the NPRM,[11] ILECs have been able to record revenues from CLECs and other carriers for such telecommunications elements in existing revenue accounts, such as Account 5240. While the proposed new revenue accounts are not strictly necessary, creation of a new revenue account for a new category of services is consistent with the principles underlying Part 32 and may be appropriate.

Unlike expenses, revenues are classified in Part 32 along lines of products or services purchased by customers. While the existing Part 32 revenue accounts are fully sufficient to accommodate revenue from new activities such as the provision of telecommunications elements to CLECs, these interconnection services are sufficiently separate and distinct from other revenue categories that a new account would not be inconsistent with Part 32. Besides, revenue from CLECs, as a whole, is a discrete, identifiable cash flow that would not be especially burdensome to track and accumulate in a separate account.[12]

Uniformity alone does not justify creating a new revenue account because a Responsible Accounting Officer Letter could provide the instructions necessary for uniform booking of a new

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[10] Part 32 Further NPRM ¶ 12. See also id. ¶ 79.

[11] NPRM ¶ 5 & n. 16.

[12] This is not to say that every new product-line or service-line requires the creation of a new revenue account or subsidiary record. Existing accounts generally should be sufficient to accommodate new revenues.

type of service revenue.[13] Uniformity is an incidental benefit of a separate revenue account, but it should not be the sole basis for creating new accounts. What may justify creation of a new revenue account is the discrete nature of this entire group of new telecommunications elements and the fact that the volume of transactions in these revenue accounts will be substantial.

However, multiple new revenue accounts are not necessary. A single account for all revenue from the provision of interconnection, UNEs, and transport and termination is sufficient.[14] Just as other revenue accounts encompass an entire category of services, the interconnection revenue account should include all of the revenue from all of the core services involved in providing interconnection to CLECs and other carriers. In fact, Account 5240 could be used for this purpose, with appropriate revisions to expressly expand the services covered by the Account 5240 description to include revenue from UNEs, transport and termination and interconnection activity. In the alternative, a single new account could be created for all such revenue.

Although SBC concurs with the creation of a new account for interconnection revenue or designation of Account 5240 to serve that purpose, the Commission should not require that this revenue account be disaggregated into multiple sub-accounts or subsidiary record categories for each specific element being sold. Creation of multiple categories in this revenue account is unnecessary. Part 32 does not require the existing revenue accounts to be broken down into

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[13] As the NPRM notes, different ILECs may record interconnection revenue in different accounts. NPRM, ¶5 & n.16.

[14] Resale revenue would be handled separately as discussed in a subsequent section.

multiple subsidiary records for each specific service. It would be inconsistent for Part 32 to begin requiring such product-level categories, when existing Part 32 revenue accounts only require categorization to the level of an entire group or line of products or services. For example, Account 5060, Other Local Exchange Revenue,[15] includes revenue for several services, such as, but not limited to, call forwarding, call waiting and touch-tone service but separate subsidiary records are not required for revenue from each of these specific services.

In the case of UNEs, an additional problem presented by separate revenue sub-accounts or categories for each UNE is the potential need for frequent revision of Part 32 because, as the Interconnection Order recognizes, the seven UNEs it requires are only the minimum set of elements and additional types of UNEs may arise as a result of additional state unbundling requirements.[16] This is part of the reason for avoiding product-specific detail in Part 32: every time a new product is created, a new revenue category would also be required. Identification of the aggregate revenue from the performance of all of these interconnection activities should be more than sufficient for purposes of Part 32.

In fact, in adopting Part 32, the Commission specifically rejected proposals that Part 32 include separate revenue sub-accounts for business and residential services or to otherwise divide

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[15] 47 C.F.R. §32.5060.

[16] Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499 ¶¶ 281, 366 (1996) ("Interconnection Order").

revenue by "class-of-service."[17]

In sum, while it is appropriate to use a single revenue account such as Account 5240 to record all of the revenue for interconnection, UNEs and transport/termination, Part 32 should not require more burdensome and unnecessary detail within this revenue account.

III. ALLOCATION OF COSTS TO A SPECIFIC CATEGORY OF SERVICES (INTERCONNECTION) IS NOT A PROPER FUNCTION OF THE PART 32 ACCOUNTING SYSTEM.

The stated objectives of the accounting requirements proposed in this NPRM are almost as broad as some of those of the initial USOA proposal in the 1978 USOA NPRM. The NPRM indicates that its proposals are intended to achieve goals relating to (1) uniform reporting; (2) monitoring the economic impact of local exchange competition; (3) ensuring that ratepayers do not cross-subsidize the ILECs' "competitive activities;" and (4) assisting the Commission in ruling on petitions for forbearance.[18] These broad goals far exceed the proper purpose of a system of accounts and are inconsistent with the original financial accounting goals of Part 32. Moreover, beyond the brief listing of these objectives, the NPRM does not explain how any of the proposed accounting proposals will accomplish any one or more of the NPRM's stated goals. One can only speculate how a particular accounting proposal might be used in pursuit of a particular goal.

In adopting Part 32, the Commission sought to create an effective financial accounting and

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[17] Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the FCC's Rules), CC Docket No. 78-196, Report and Order, FCC 86-221, released May 15, 1986, ¶ 150 ("USOA Report and Order").

[18] NPRM, ¶ 6.

reporting system that was not "tied to any particular cost of service methodology."[19] Part 32 should neither categorize costs by specific services nor assume any particular method of allocating expenses to jurisdictions, products or services. Fundamentally, Part 32 is designed as an objective system for identifying costs, which system does not reflect regulatory policy decisions such as those that are required in a cost allocation system.

The NPRM's goals and its proposals go beyond the proper purposes of a basic system of accounts and the intent of Part 32. For example, prevention of ratepayer cross-subsidy of the ILECs' "competitive activities" is not a task that a system of accounts should "ensure," as the NPRM states. Historically, cross-subsidy has been addressed, not in the Part 32 USOA, but by mechanisms expressly adopted for that purpose, such as the Part 64 cost allocation rules[20] and certain Part 61 price cap rules.[21] This goal should be pursued, if at all, via an appropriate regulatory mechanism, not through the basic system of accounts. Part 32 has never been used as a tool to prevent cross-subsidy, and it would be inconsistent with Part 32's original purposes to begin using it as such a tool at this time.

Aside from cross-subsidy being a misplaced goal for Part 32, SBC questions the implied reasoning underlying this goal. Although the goals are not explained clearly, the NPRM appears to contemplate that an ILEC's interconnection work is a "competitive activity," which it implies

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[19] USOA Report and Order, ¶ 7.

[20] Accounting Safeguards Order, CC Docket No. 96-150, 11 FCC Rcd 17539 (1996).

[21] See, e.g., Price Cap Performance Review for Local Exchange Carrier, 11 FCC Rcd 858 ¶¶ 19-20 (1995); Price Cap Performance Review for Local Exchange Carriers, 10 FCC Rcd 3141 ¶ 7 & n. 2 (1995).

should not be funded by ratepayers. On the contrary, provision of interconnection can, in no sense, be considered a "competitive activity." Provision of the full range of interconnection is a mandatory requirement under Title II of the Communications Act applicable only to ILECs. It is a requirement that ILECs, and ILECs alone, unbundle their networks to facilitate entry by CLECs. No one will compete with the ILEC in the provision of interconnection pursuant to Section 251. Admittedly, the Section 251 interconnection mandates make it possible for CLECs to provide competing retail services to the ILECs' ratepayers (and former ratepayers), but the CLECs' competing retail activity is not being funded by the ILEC except in the sense that interconnection rates are not recovering all of the ILECs' costs. In any event, the ratepayers, as well as the CLECs, will be the primary beneficiaries of the ILEC's interconnection activity. Ratepayers will benefit from increased competition and the availability of alternative sources of local exchange service. And, in view of competition, price cap regulation and similar forms of state regulation, their prices will not be increased to cover any costs of providing interconnection. Therefore, there is no reason to establish safeguards to shield ratepayers from the expenses of providing interconnection. In sum, because the ILEC's opening of its network is not a "competitive activity," there is no possibility of ratepayer cross-subsidy of any ILEC "competitive activity." Besides, it does not make sense to set up accounting safeguards to avoid imposing some of the costs of interconnection on ratepayers because they are already protected sufficiently and, in any event, they are among the primary beneficiaries of this activity.

For these reasons, SBC questions whether this goal is necessary at all. However, even assuming it were a proper goal, Part 32 would not be the place to pursue this goal and this Part

32 rulemaking would not be the proper forum to decide a policy issue regarding subsidy of ILEC competitive activities.[22]

In an apparent, though unexplained, attempt to pursue this misplaced goal relating to cross-subsidy through Part 32, the NPRM proposes to require subsidiary records in virtually every expense account to identify the service-specific costs of providing interconnection to CLECs. Identification of the costs of providing a specific service or of serving a particular type of customer is not consistent with Part 32's functional accounting approach. The NPRM proposes to divide expense accounts based on the types of service provided, i.e., whether or not the service is related to interconnection, rather than based on the functions performed by equipment or individuals. For instance, switching equipment performs a switching function whether it does so for business or residential end users, exchange access or interconnection. Part 32 should not be used to attempt to allocate switching costs to a specific type of service that utilizes switching capacity. The NPRM would have Part 32 revert, in a piecemeal fashion, to a method of categorizing costs that the Commission rejected when it originally adopted Part 32.

In any event, this level of detail regarding a specific service (interconnection) is not needed in Part 32 for any proper purpose and should not be required.

[22] Of course, a threshold policy issue in the proper forum would be to identify ILEC "competitive activities." As discussed above, an ILEC's provision of interconnection to CLECs is not an ILEC "competitive activity."

IV. OBJECTIVE PART 32 ACCOUNTING CATEGORIES SHOULD NOT BE BASED ON PRESCRIBED, POLICY-DRIVEN METHODS OF ALLOCATING COMMON COSTS TO SPECIFIC SERVICES SUCH AS INTERCONNECTION.

It is even more obvious that this proposal contradicts the principles underlying Part 32 when one examines the specific proposed method of determining the amounts to be booked in the interconnection subsidiary record category in each account. The Commission proposes to use interconnection revenues as an allocator to apportion common costs to the proposed interconnection records. First, Part 32 is not a cost allocation system that attributes common costs to specific services, jurisdictions or categories of customers. Second, even in Part 64, revenues are not supposed to be used as an allocator for expenses. The NPRM's proposed allocation method sounds like a Part 64 cost allocation procedure, but it is not even consistent with proper cost allocation principles as reflected in Part 64.[23] Third, the particular method the NPRM proposes would not yield any meaningful information because it would merely equate revenues and costs.[24]

In fact, this proposed method of allocating costs to specific services within Part 32 is reminiscent of the original 1978 USOA NPRM proposal to establish an all-purpose system of accounts that would "slice and dice" costs down to the level of individual services or categories of

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[23] In CC Docket No. 86-111, the Commission expressly rejected using revenue as a factor in the General Allocator. The Commission explained that "revenues measure only the ability of an activity to bear costs, and not the amount of resources used by the activity." Joint Cost Order, 2 FCC Rcd 1298, 1318 ¶ 160 (1987). As a consequence, use of revenues as an allocator tends to understate the costs of a new activity that does not generate sufficient revenues. In any event, Part 32 records should not reflect the results of inherently arbitrary allocations even if a more appropriate allocator were available.

[24] NPRM, ¶ 14 & n.31.

services using prescribed cost allocation procedures.[25] In the 1978 USOA NPRM, the Commission's discussion of the methods of attributing costs to specific services in the proposed USOA included the following:

> It is anticipated that all tariff and . . . depreciation studies will be based solely on the data in the USOA and required supporting records, through the use of a cost of service manual that will be part of these accounts . . . .
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> . . . .
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> As indicated above . . ., the cost accumulated in the accounts, sub-accounts, primary allocation records . . . and supporting records will ultimately be distributed among the various services either by direct assignment or in accordance with prescribed allocation procedures. . . .
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> For purposes of regulation, management and analysis, the expenses of each operating company should be classified by function, but each functional category should, in turn, be divided between the various services. The system can be visualized a two-dimensional spread sheet with the functions being designated as row headings and the services as column headings. The amounts for each row are spread among the columns. Thus total expenses for a given service are found by totaling the amounts in the appropriate column. In order for the system to yield satisfactory results, the functional amounts, when they are incurred, must be "tagged" with the appropriate service label. A detailed discussion of this process is given in Appendix F.
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[25] This proposal is also similar to the attempt to create service-specific accounting categories for video dialtone service -- another example of an attempted departure from functional accounting principles. See Accounting and Reporting Requirements for Video Dialtone Service, RAO Letter 25, 10 FCC Rcd 6008 (1995) (requiring LECs to establish subsidiary records by USOA account to "isolate video dialtone costs and revenues from other LEC costs and revenues."); SWBT Application for Review, RAO Letter 25, filed May 3, 1995, at 1-9. While RAO 25 sought to isolate costs related to video dialtone, it did not attempt to incorporate in Part 32 procedures for allocating shared costs between video dialtone and other LEC services. Thus, this NPRM's proposal to prescribe methods of allocating common costs to interconnection in each USOA expense account goes one step further beyond the proper purpose of the basic system of accounts.

In the event a carrier has a marketing program that involves, for example, the sale of some group of services to members of a particular industry, a master record would be established. Advertising and marketing goals would be determined before the campaign, and such goals -- the sale of various rate elements in some proportions -- would serve as the initial cost allocation of expenditures for each individual case file (Expense Record) under the same master record (program). The existence of such clearly expressed goals will enable management to judge the program in terms of the organizational objectives, and for regulators to determine, by examination of the intended and realized effects of the program, whether the program's costs should be borne by the rate payer or stockholder, and if the rate payer, by which ones (which services). Marketing expenses, for each customer contact would be collected by an individual expense record, allocated as was the master one for the program. However, as each customer contact developed, it might eventually become apparent that some other service or group of services would be sold. Such determinations might be made several times before the customer makes a decision to buy or not to buy, and each time, the expenses collected in the Expense Record would be differently allocated for those incurred subsequent to the change, while those incurred prior to the change would follow the earlier allocation . . ..

....

Many costs . . . are related to operations or to classes of plant, as well as to service. The Expense Record, as a multi-faceted assignment and allocation mechanism, enhances the accuracy and reliability of such relationships. The Expense Record will identify the rate elements to which all expenses are to be assigned, the plant or other elements upon which the work was performed, and the organizational groups by which the work was done. The maintenance accounts exemplify the assignment of work costs to types of plant as well as service. The marketing and commercial accounts illustrate the assignment of cost to organizational or functional unit as well as service.

Using the Expense Record system, a Causational Service Cost Accounting System permits any cost to be traced to any of its causes. The primary cause is considered the service, but if services are the rows of the matrix into which the costs are arrayed, the columns may be types of plant or anything else. In conventional accounting terms, such an array can lead to an enormous number of intersections, or cells for each service and type of plant. Even so, with modern data processing methods, such an array-like structure resembles the matrices in which data is stored in the computer, and so is, if anything, simpler to handle and retrieve than old fashioned data structures. It is unfortunate that printing is . . . a linear process, so that the multifaceted

> structure we propose appears bulky and complex . . . . The power of the matrix form of organization is so great that expenses can, if desired, be traced to the retirement unit upon which the work is performed, with no more information than is presently recorded in various uncorrelated documents. The difference between the Causational Service Cost Accounting System and the present accounting system is that the old fashioned linear structure of the present system imposes a single logical structure upon the data, and prevents alternative analyses, while the Causational Service Cost Accounting System's use of the Expense Record and array-like structure of accounts promotes the use of alternative analyses, by removing the constraining influence of a single linear structure [26]

Ultimately, the Commission abandoned this proposal to use the USOA to identify service-specific costs in each account and functional category via cost allocation procedures incorporated in the USOA. The Commission should not now adopt an approach to the system of accounts that it rejected long ago. Allocating a portion of the expenses in each expense account to an interconnection-specific record in that account using a prescribed allocation procedure is the same sort of service-specific accounting initially contemplated in 1978 but ultimately rejected due to its extraordinary and overwhelming complexity.

In fact, the NPRM's proposed allocation procedure using cost studies based on revenues is in some respects as complex as some of the proposals in 1978. ILECs have entered into a large number of interconnection agreements containing a wide variety of terms and conditions. The NPRM's proposal essentially requires analysis of each of thousands of pages of agreements to trace each of the revenue components to specific accounts. Because few agreements are alike, this would be a very labor-intensive process, not unlike what would have been required to

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[26] 1978 USOA NPRM, ¶¶ 14, 22, 42 & Appendix F (emphasis added).

implement some parts of the 1978 USOA proposal, such as the customer-by-customer marketing program expense allocation discussed in the above-quoted excerpt. Just as the 1978 USOA proposal would have required allocation of marketing costs, on a program-by-program and customer-by-customer basis, to an "intersection or cell" of a multi-dimensional matrix corresponding to the specific service element in each account, the current proposal would require a revenue-driven allocation of interconnection costs, on an element-by-element and contract-by-contract basis, to the interconnection service's record in each account. Moreover, the proposed allocation process requires detailed analysis of existing cost studies and performance of new cost studies to support the division among accounts of the costs of each of the elements in each interconnection agreement.[27]

It is absurd for the NPRM to propose that allocation of common costs of interconnection should take place in the basic system of accounts. The USOA is supposed to contain an objective and reliable financial accounting base, not tied to cost of service methodologies. In this case, the NPRM inexplicably attempts to create certain Part 32 records based on a potentially wide variety of costing methodologies reflected in interconnection agreements. Regulators and economists alike, including the FCC, have long recognized that allocation of common costs among services or between jurisdictions is an inherently arbitrary process which can be performed using a variety

[27] It is truly arbitrary for the NPRM to propose requiring performance of new cost studies and modification of existing studies when the 1996 Act (1) requires even the states to avoid complex rate-of-return or rate-based proceedings and (2) encourages privately negotiated interconnection agreements. This proposal subverts one of the significant advantages of private negotiation of interconnection agreements: private negotiation avoids the necessity of determining the cost and reasonable profit associated with each element.

of cost allocation or cost study methodologies.[28] Subject to any statutory constraints, the regulator decides which method of allocation to use in a particular industry or for a particular purpose based largely on a variety of policy choices, such as universal service objectives, how the savings from economies of scale should be allocated or promoting competition.

For example, speaking of the allocation methods in the jurisdictional separations process, the Commission has recognized the "generally held view that allocating the cost of non-traffic sensitive communications plant held in common on a fully distributed costing basis is from a strictly economic view, an arbitrary process which cannot ignore policy considerations."[29] In the case of separations, the allocation methodology is driven by a process of balancing the competing interests of the Commission and the state regulatory commissions. This sort of arbitrary, policy-driven allocation of costs would yield accounting information distorted by the various regulatory policies reflected in the cost studies, the results of which the NPRM proposes to incorporate as the method of allocating costs to the interconnection record in each expense account. Interconnection pricing reflected in negotiated and arbitrated agreements is not a rational method of constructing a record of the costs associated with interconnection. Further, this would not be a reliable or stable method of determining what portion of an account's total costs is attributable to interconnection, even if attribution of costs to individual services were a proper Part 32 function.

The Commission should not require ILECs to allocate expenses to interconnection

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[28] See, e.g., Kahn, The Economics of Regulation xxxvi-xxxvii, I: 150-58, II: 152 (MIT Press 2d printing 1989).

[29] AT&T Manual and Procedures for the Allocation of Costs, 84 F.C.C.2d 384, 393 ¶25 (1981).

subsidiary record categories in each Part 32 expense account. To do so would be extraordinarily burdensome, would not accomplish any proper goal of a system of accounts and would be offensive to Part 32's fundamental principles and organizational structure.

V. PART 32 IS NOT THE PROPER MECHANISM TO PURSUE THE NPRM'S STATED GOALS.

The NPRM fails to provide any explanation at all as to how its "means" will lead to the "ends" reflected in the goals. Moreover, each of these goals, other than the goal of "uniformity," clashes with the intended purposes of Part 32. As explained above, prevention of cross-subsidy is not a Part 32 USOA function; instead, it has been pursued through regulatory policies or mechanisms reflected in other parts of the rules such as Parts 64, 36, 69 or 61. Likewise, the Commission can monitor the impact of local exchange competition by means that are far less onerous than exhaustively detailed tracking of costs and service-specific accounting data. Methods as simple as loop or subscriber counts could be used to assess the impact of competition. Further, through the uniform revenue accounting discussed above, the Commission would have the total interconnection revenue data readily available in a single account to evaluate in economic terms the magnitude of competition. And, the Commission can obtain access to other information periodically as needed without imposing burdensome, continuous data collection, accounting and reporting requirements.[30]

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[30] The Commission uses such simpler means to make its annual assessment of the status of competition in the video and commercial mobile radio markets. See, e.g., Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming, 12 FCC Rcd 4358 ¶¶ 119-122 (1997); Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With